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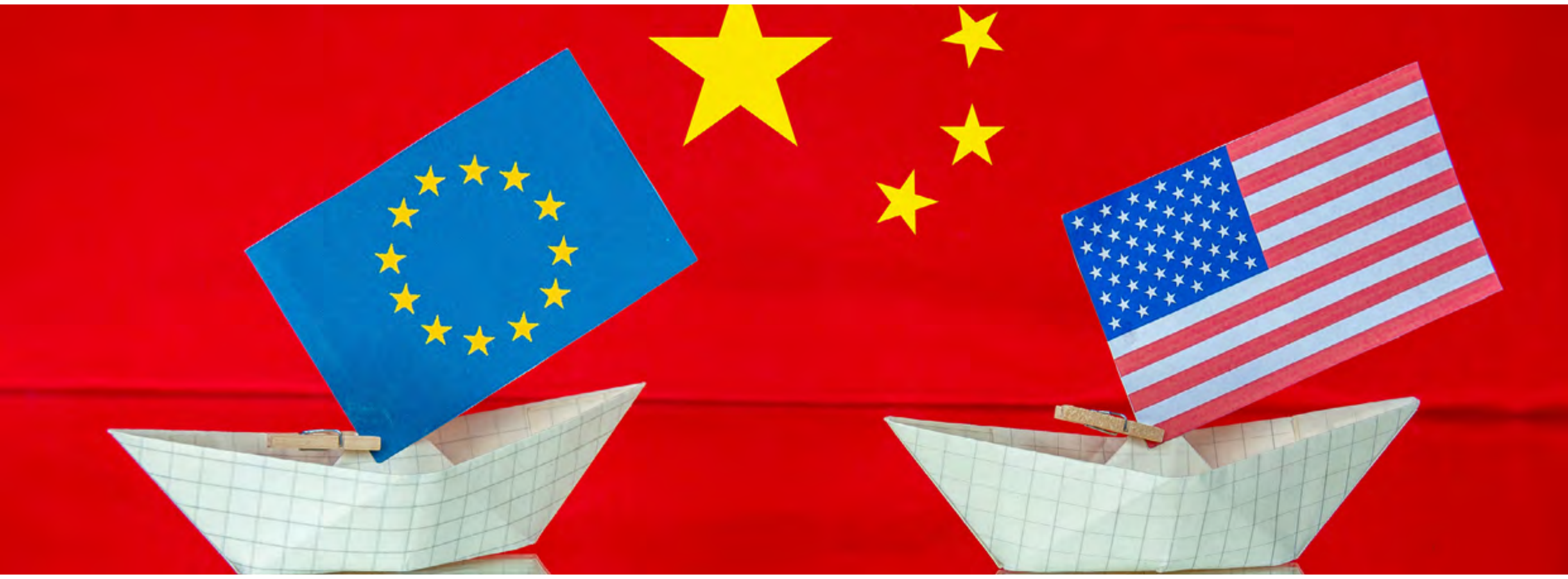


Three hard lessons for European trade

by Aslak Berg, 10 November 2025

Global trade policy is now dominated by great power politics, putting Europe under pressure. The EU will have to accommodate the US, confront China and derisk from both.

The European Union has had a difficult year in trade policy. On the one hand, the US, Europe's largest trade partner and security guarantor, has forced the EU into an unequal trade agreement, imposing 15 per cent US tariffs on most European products while the EU removes all tariffs from US industrial goods. On the other hand, Chinese exports, supported by an economic model that aims to maximise production through an array of direct and indirect subsidies, are challenging and even outcompeting European manufacturers in key sectors, such as cars. Meanwhile, China is also aggressively leveraging its stranglehold on rare earths and other sectors to obtain concessions in trade disputes.

Neither the US turn toward protectionism and away from WTO rules nor China's aggressive behaviour are new developments. The EU had a foretaste of Trumpian trade policy in his first term. While the Union was able to avoid significant disruption then, it was no surprise that more tariffs would come, given Trump's previous policies and campaign rhetoric. Similarly, China started using export restrictions as leverage against Japan in 2010.

The EU has built some defences against these threats. It has maintained a Critical Raw Materials list since 2011 and last year passed the Critical Raw Materials Act (CRMA), designed to boost domestic supply of rare earths and other strategic materials. In 2023, it also passed the Anti-Coercion Instrument (ACI), the EU's famous 'trade bazooka', designed to give the EU the tools it would need, such as restrictions on investment, trade and intellectual property, for an all-out defensive trade war when faced with Chinese or American pressure.

The hope was that this would leave EU well-equipped to be the champion of the global rules-based trade order. Yet faced with overt pressure from both the US over tariffs and China over rare earths, the EU failed to activate the ACI, making that claim ring hollow. Instead, European interests are getting caught in the crossfire: the most recent crisis of Nexperia, the Chinese-owned chipmaker based in the

Netherlands, is a perfect example. Pressured by the US and fearing the transfer to China of production, know-how and intellectual property, the Dutch government seized control over Nexperia. This led the Chinese government to immediately ban exports of Nexperia chips from its factories in China. Since these chips are widely used in the automotive sector, a Chinese export ban would put at European car manufacturing at risk of grinding to a halt. Although recent diplomatic efforts may have avoided the worst, it shows how vulnerable key European industries are to pressure.

Nor is the EU's own commitment to the rules-based order unblemished. The EU argues that its new steel measures that will raise tariffs to confront the global steel glut and protect its own industry, are in line with WTO rules. It is true that the WTO's article 28 allows the EU to renegotiate the tariff commitments made on steel, but the EU is also breaking commitments made in its free trade agreements, including to close partners like the UK, Switzerland, Japan and Canada. And the EU is at the same time talking openly about a 'steel club' that would include countries like the US – an idea that would almost certainly be in direct contravention of WTO regulations.

The result is a sense of confusion and humiliation – with a real risk that Europe will end up bruised and battered, caught between the American hammer and the Chinese anvil. To avoid this fate, the EU must quickly regroup and draw three vital lessons from 2025.

Lesson 1: The EU is not ready for a trade war with the US

Historically, the EU was able to deal with the US as a peer in trade disputes, as shown in the numerous transatlantic trade spats in the post-war era, ranging from the Boeing-Airbus dispute to clashes over the use of hormones in beef production and trade preferences for bananas from European ex-colonies. With that track record and economies of approximately equal scale, the EU could be forgiven for believing itself to be well-equipped for any argument. The humiliating climb-down at Turnberry, where Ursula von der Leyen accepted the 15 per cent tariff only half a year after Trump's inauguration can be explained by three factors.

First, in security matters Europe has been the junior partner to the US ever since World War II. Despite increased European defence spending, this dynamic seems very unlikely to change in the short term, especially given the need for the US to support Ukraine and to deter further Russian aggression. The EU's past ability to match the US in trade matters was a function of the US being willing to play by the rules. It relied on the assumption that the two powers would keep trade and security matters in separate silos. The Trump administration, on the other hand, is unwilling to do either. Explaining the Turnberry trade deal, Trade Commissioner Maroš Šefčovič said: "It's not only about the trade. It's about security. It's about Ukraine. It's about current geopolitical volatility." As a result, the US's dominant role in security now spills over into economic matters.

Second, the stagnation of the wider EU economy has left the EU vulnerable, with no appetite for trade wars. The US absorbs more than 20 per cent of EU goods exports, a share that has risen over time. With the lack of growth in European domestic consumption, these exports have become indispensable to the European economy. European industry lobbied intensely both the Commission and member-state governments to accommodate the Trump administration and avoid a vicious cycle of escalating tariffs.

Third, the Trump administration has called Europe's bluff when it comes to the ACI. The ACI would allow an extraordinary range of economic measures against an opponent, but it requires member-states to grant this authority to the Commission. And the bottom-line is that member-states do not trust the

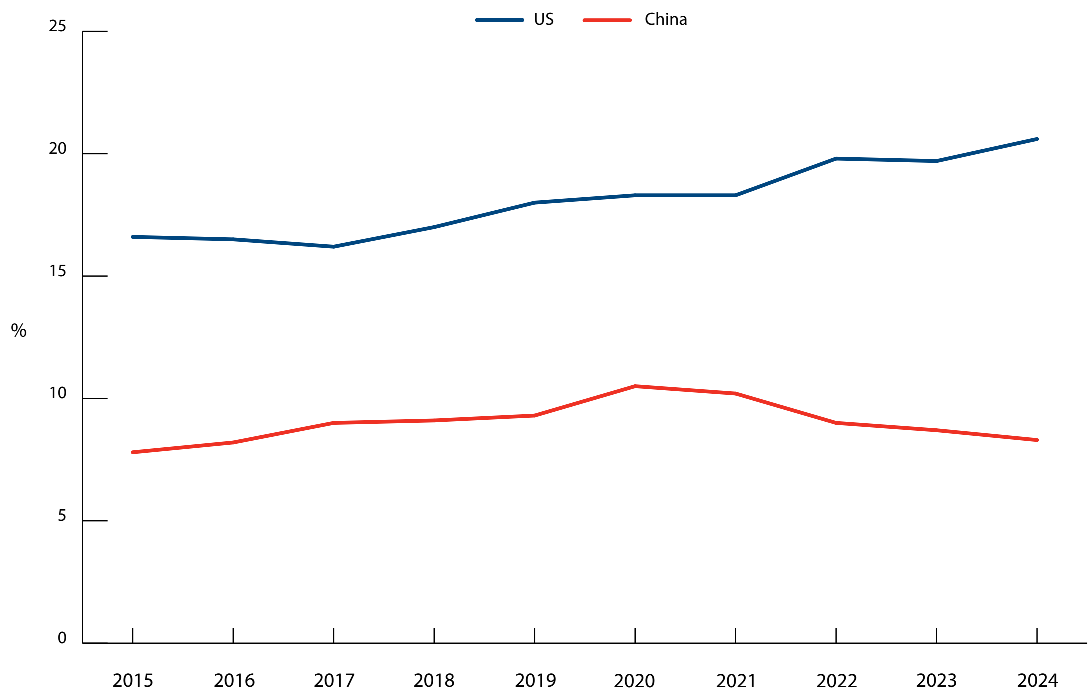
Commission with a loaded gun pointed at the US. Although the EU is strong when engaging in tightly-circumscribed trade disputes, when it comes to more wide-ranging (and existential) trade disputes, Europe's perennial Achilles' heel of disunity comes back to the fore. With no member-state constituency for a trade dispute with the US, a strong stance was always out of reach for the Commission.

Europe therefore has no choice but to reconcile itself with being the junior transatlantic partner in economic matters as well as defence, which requires it to face a continuous need to accommodate both the current and future US administrations. Over time that could change: reforms could give the EU the institutional tools and heft that its economic weight would warrant, reducing its dependence on the US for growth. But the EU must not delude itself into thinking that it has strategic parity with the US where it does not, risking conflicts the Union is ill-equipped to handle. For the foreseeable future, the EU will need to accommodate the US as much as it needs to ensure its security and prosperity.

Lesson 2: The EU cannot stay neutral between the US and China

Trump's trade policy has attracted much of the attention – but in the longer term it is Chinese trade policy that poses a larger challenge to Europe. US trade policy has been erratic and problematic – but even with a 15 per cent tariff, the US remains much more open to European products than China. European exports to China have been declining in recent years, while imports from it have been steadily increasing. US trade policy is subject to change with every presidential election, and stricter US restrictions on trade with China may open up opportunities for increased European exports to the US to replace Chinese products. Conversely, there is little indication that China will open up its own market to increased imports from Europe: its economic model is a structural challenge for Europe, as it suppresses imports and subsidises exports.

Chart 1: As the US market grows in importance, China diminishes
Percentage of EU exports



Source: Eurostat.

It is in part a macroeconomic problem, whereby China transfers resources from consumers to producers to create a hyper-competitive environment, tilting the economic playing field away from producers elsewhere to concentrate manufacturing in China. But it is also an economic security problem. Chinese policy has always been aggressive against foreign producers – including compelling Western companies investing in China to form joint ventures with Chinese partners and transfer technology to them. But the switch towards using its dominance of specific sectors as leverage means this intrusive level of intervention is being globalised and extended to companies without operations in China – with European companies now forced to give up sensitive data to access rare earths. Although China claims these measures are a response to US policy, Europe again ends up as collateral damage.

Many Europeans may find both Trump himself and US policy under Trump distasteful. But recent experience shows that the idea that Europe can stay out of Sino-American trade disputes is naïve at best, dangerous at worst. The ties that bind the global economy inevitably mean that Europe will be pulled in. And as the EU is unable and unwilling to confront the US, to the extent that it has to choose between the US and China, it will choose the US every time. And rightfully so: the US imports two and a half times more from Europe than China does. US-EU ties extend beyond economics. As NATO allies, the US offers Europe security guarantees, albeit with strings attached. There are deep cultural, institutional and historical ties that will remain when Trump is long gone.

In contrast, China offers little but the opportunity to buy cheap products – which matters a lot for certain things, but pales in comparison with the value of the transatlantic relationship. Past diplomatic flare-ups show the fragility of EU-China relations, such as the de facto embargo against Lithuania over its engagement with Taiwan, and the Chinese sanctions imposed on MEPs, EU officials and European academics and think-tanks in response to EU measures relating to China's repression of Uyghurs in Xinjiang. And to the extent that China poses a threat to key European interests through unfair competition and economic coercion, it would be far easier to confront China in co-ordination with the US than alone.

Lesson 3: There is a world beyond the US and China

China and the US combined absorb less than 30 per cent of EU exports, meaning more than 70 per cent go elsewhere, a proportion that is likely to increase over time as other markets like India grow in importance. While relations with China and the US will probably remain difficult and managing them will be a key priority for the EU and member-states, neither country offers much prospect of closer ties and improved market access – certainly not in the short term. The most successful part of EU trade policy in recent years has been the steady expansion of free trade agreements. And while trade relations with China and the US are increasingly a matter of great power politics, other countries are still interested in rules-based trade and improving market access. A more independent Europe can only come about with reduced dependency on the two economic superpowers, and derisking from politicised trade relations with both.

The Commission has therefore been right to push for ratification of the agreement with the South American countries in Mercosur. The completion of negotiations with Indonesia is another milestone achievement. If negotiations with India can also be concluded in the coming months, that would constitute a true banner year for EU trade policy, and open up markets with a combined population of 2 billion to more EU exports. Though these economies cannot at this point measure up to the US and China in size, over time this is the only realistic trade policy the EU can pursue to reduce dependency on China and the US.

Last but not least, the EU can show more ambition in its own neighbourhood. It should see the strategic value of shoring up relations with its neighbours, beyond the simple quid pro quo of bilateral trade negotiations. The EU's neighbours, whether the UK, Switzerland or the Mediterranean countries ranging from Morocco to Turkey, will always privilege EU relations and represent an enormous asset for the EU. The Pact for the Mediterranean, unveiled on October 16th, included some steps toward deepening economic ties with the EU's Mediterranean partners. To its East, the EU should accelerate enlargement and integration efforts with Ukraine, Moldova and the countries of the West Balkans. The greatest economic achievements of the EU have historically been on its own continent and in its own neighbourhood, where its leadership role is undisputed. Europe remains a trade superpower – but to maximise its potential it must avoid a two-front confrontation with the US and China, prioritise which interests to fight for, and play to its strengths.

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